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SUBJECT: Argentina: GoA Pension Fund Gives Credits to General Motors to Sustain Domestic Production

Ref: A) 08 Buenos Aires 1443  
B) Buenos Aires 1682

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Summary  
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¶1. (SBU) The GOA's national pension fund (ANSES) will provide GM Argentina up to US\$ 70 million in credits to support the company's production of its new "Viva" compact car. The Viva will incorporate Brazilian parts and be targeted for export to other Latin American markets. President Cristina Fernandez de Kirchner is slated to attend a June 4 signing ceremony at GM's Santa Fe province plant. A GoA official admitted that, beyond the Kirchner administration's focus on sustaining employment in Argentina's ailing auto sector, consideration had been given in extending this credit to the bilateral political benefits to be gained from supporting a U.S. company's operations here. This latest ANSES domestic funding initiative comes a month before mid-term elections and on the heels of a number of other GoA announcements of programs to support Argentina's auto industry. In the context of speculation on GM's imminent bankruptcy and heated bidding for GM's European operations, a local Fiat executive confirmed that Fiat has also made an offer for GM's Latin American operations. According to GM Argentina, the company remains a separately incorporated and profitable venture whose intertwined Argentine and Brazilian production has been the single most profitable part of the GM worldwide for the past four years. End Summary.

¶2. (SBU) General Motors Argentina President Edgar Lourencon confirmed to EconCouns that GoA-controlled pension fund ANSES will lend the company up to US\$ 70 million (Pesos 260 million) for four years to provide the company a base to ramp up production of its new "Viva" compact car. Interest on the loan will be calculated at a variable rate based on the local "Badlar" wholesale deposit rate (currently about 13%) plus 6%. Funds will be channeled through a "fideicomiso" trust fund managed by GoA-owned Banco Nacion, with GM's re-payment to the trust fund guaranteed by its export revenues. GM Argentina will provide equivalent internal funding in the US\$ 70 million range to match the GoA loan.

¶3. (SBU) Lourencon explained that the Viva car concept was originally announced with much fanfare in a 2007 meeting between then-GM CEO Wagner and then-President Nestor Kirchner as part of GM's commitment to continue investing in Argentina. He attributed the long delay to GoA bureaucratic mis-steps, Argentina's precipitous economic downturn, and the significant drop in domestic automobile consumption over the past eight months. Lourencon clarified that the Viva will not be the wholly domestically produced "Argentine peoples car" envisioned by Internal Commerce Secretary Guillermo Moreno: as with most of GM Argentina's production, it will incorporate components from GM's international production network, primarily from GM's Brazilian operations.

14. (SBU) Although the final ANSES/Banco Nacion/GM loan agreement is yet to be signed, the Casa Rosada (office of the President) has asked General Motors to host a signing ceremony at its Buenos Aires province plant June 4. President Cristina Fernandez de Kirchner, Production Minister Debora Giorgi, Internal Commerce Secretary Guillermo Moreno (who Lourencon called a driving force behind this ANSES funding initiative), Labor Minister Carlos Tomada, and ANSES Director Amadou Boudou are to attend. Lourencon asked that the U.S. Embassy send an appropriate level representative as well.

15. (SBU) Lourencon noted that GM produces roughly 20% of Argentina's automobiles and just dropped to the number two rank in 2008 following a significant capacity expansion investment by French rival Peugeot. GM Argentina produced 112,000 units in 2008, exported roughly 70,000 units (primarily to Brazil), and sold domestically 95,000 units (a 16% market share that including models imported from Brazil). Like most GM cars produced in Argentina, the Viva model will incorporate Brazilian parts and up to 80% of its production will target export markets. Local daily La Nacion recently quoted GM company sources as projecting that Viva production would ramp up by the third quarter of 2009, with 10-12,000 units produced this year, and a significantly larger production volume in 2010.

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GM's Mercosur Focus and GM Argentina's Future  
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16. (SBU) Lourencon explained that GM approaches the broader Brazil/Argentina Mercosur market as a single strategic business unit and that GM has optimized its production to take full advantage of the Brazil-Argentina auto pact (Ref A). In the context of GM's current bankruptcy discussions with the USG and parallel bidding for

GM's European manufacturing facilities by Fiat and others, Lourencon noted that GM Argentina is a separately incorporated profitable stand-alone enterprise and that GM's Latin America-wide production has been the single most profitable contributor to the U.S. parent company's bottom line for the past four years running. He confirmed there has been some media speculation that Fiat may be interested in bidding for some of GM's Latin American assets as well.

17. (SBU) Separately, in a May 29 conversation with Econ Couns, Fiat Argentina CEO (and outspoken Vice President of the Argentine industrial Union) Cristiano Ratazzi confirmed that Fiat has two offers on the table to GM: one for GM Europe (Opel) alone and one for GM Europe plus GM Latin America. He dismissed Lourencon's contention that GM's stand-alone status ensures its survivability as meaningful only in the very short term: GM Argentina depends on the U.S. mother company for all of its R&D, the key to developing and introducing new models, Ratazzi said.

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ANSES: Investing in Domestic Auto Production  
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18. (SBU) Sergio Chodos, former Economy Ministry Finance Secretary under Ministers Felisa Miceli and Miguel Peirano in 2006-7, became the GoA-appointed head of the private pension fund (AFJP) umbrella organization in the run-up to the GoA's nationalization of AFJP assets in December 2008 (Ref B). He is currently serving as the Deputy Director of ANSES' Stability Fund, which manages now nationalized AFJP monies. In a May 26 conversation with EconCouns, he called himself the originator of the GM loan concept and emphasized that it meets the ANSES Stability Fund's two primary missions: to sustain domestic employment and to encourage the expansion of local content and domestic value-added in domestic production.

19. (SBU) Chodos hinted that additional ANSES loans to Argentina's auto sector, including auto parts manufacturers, will follow in the near term. (Local media is reporting that ANSES is negotiating with Peugeot to support the domestic production of its new 308 and other models). He asked whether the U.S. Embassy had any information on a possible sale of GM Argentina to the Fiat Group, admitting that, beyond the GoA's primary employment sustaining rationale for making this credit available to GM, consideration had been given to the bilateral political benefits to be gained from supporting a U.S.

company's operations here.

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Comment: ANSES to the Rescue?  
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¶10. (SBU) This latest ANSES funding initiative comes a month before mid-term elections and on the heels of a number of complementary GoA announcements of programs to support Argentina's ailing auto industry. Two successive Kirchner administrations have repeatedly pointed to GoA support for the auto sector as part of their efforts to further diversify Argentina's economy away from its traditional agricultural commodity exporting base and towards the kind of higher-end industrial manufacture that expands domestic value-added and high wage employment. Other recent GoA auto sector support programs included a December 2008 announcement of ANSES-subsidized car loans for first-time buyers (a program later expanded to a broader buyer base), a February 2009 "junker" trade-in subsidy program, and a March 2009 announcement of Labor Ministry-managed employment subsidies for car and car part companies.

¶11. (SBU) The broader question raised by this loan - and one that opposition politicians have repeatedly raised in mid-term election campaign talks - is whether such investments of nationalized pension fund resources are the most productive use of scarce GoA capital and whether they are in the best long-term interest of current and future pensioners.

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